

Testimony Regarding Connecticut's School Finance System

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My name is Bryan Hassel and I am co-director of Public Impact, an education policy organization based in Chapel Hill, North Carolina. Since 1996, Public Impact has helped education leaders and policymakers nationwide improve student learning in K-12 education. In that time, my colleagues and I have worked closely with policymakers in Rhode Island to develop the state's new finance system going into effect this fall, analyzed funding systems at the state level in Ohio and South Carolina, modeled the effects of school finance reforms in Connecticut and Washington, and worked with leading school finance experts nationally on a white paper describing the merits of a finance system that consistently funds students, based on their learning needs, at the public schools they attend.¹

Decades of research leave no doubt that our nation's schools are in crisis. Fewer than 40 percent of students are proficient in math and only a third of students are proficient in reading, according to the National Assessment of Educational Progress (NAEP).² Large achievement gaps exist between rich and poor students within the United States, as well as between American students and their peers internationally. In reading, students qualifying for free or reduced price lunch perform more than two grade levels behind their wealthier peers. On an international math exam, American students rank 17th behind students in Shanghai, Estonia, and Poland.³

Historically, a lot of the debate around school finance has focused on how much money we should be spending on public education. That is an important debate to have, because education is one of the best investments we can make. But what is equally important, and what you have the power to change today, is the way that Connecticut directs the money it is already devoting to education. In today's fiscal crisis, that is the debate policymakers need to have. Whether or not students would benefit from more funding, more funding is not available. States must therefore focus on maximizing the value of each and

¹ See, for example: The Fordham Institute. (2006). *Fund the child: tackling inequity and antiquity in school finance*. Available at http://www.schoolfunding.info/resource_center/media/Fordham_FundtheChild.pdf; Hassel, B. and Roza, M. (2007). *Funding the child: Getting results in South Carolina through weighted student funding*. Available at http://www.scpolicycouncil.com/pdf/Fund%20the%20Child_Hassel.pdf; Public Impact and The University of Dayton. (2008). *Fund the child: Bringing equity, autonomy, and portability to Ohio school finance*. Available at <http://www.edexcellence.net/publications-issues/publications/fund-the-child-bringing.html>; ConnCAN and Public Impact. (2009). *The tab: How Connecticut can fix its dysfunctional education spending system to reward success, incentivize choice and boost student achievement*. Available at <http://www.conncan.org/sites/default/files/research/TheTab.pdf>; Public Impact and West, M. (2010). *Fund the student: A plan to fix Rhode Island's broken public school finance system*. Available at http://publicimpact.com/publications/Fund_the_Student_Rhode_Island.pdf; Partnership for Learning and Public Impact. (Forthcoming). *Student-based budgeting: Revamping funding to improve performance*.

² National Center for Education Statistics. (2009). *The nation's report card: Reading 2009*. Retrieved from <http://nces.ed.gov/nationsreportcard/pubs/main2009/2010458.asp>; National Center for Education Statistics. (2009). *The nation's report card: Mathematics 2009*. Retrieved from <http://nces.ed.gov/nationsreportcard/pdf/main2009/2010451.pdf>

³ OECD. (2010). *PISA 2009 results*. Retrieved from http://www.oecd.org/document/61/0,3343,en_2649_35845621_46567613_1_1_1_1,00.html#Country_notes

every dollar they invest in education. And on creating a finance structure so that if more revenues *do* become available in the future, they can flow equitably and in ways that contribute best to student learning.

Today, Connecticut's school finance system is not working. Until it's fixed, the state will continue to squander millions of dollars while its most vulnerable students fall further behind. On average, the state spent \$14,610 per pupil in 2008, a higher level than 46 states, and nearly 50 percent above the national average per pupil spending.⁴ In exchange for its high spending, the state has the largest achievement gap between poor and non-poor 8th graders.⁵ On average, Connecticut students perform about three grade levels behind their non-poor peers in reading, math, and science.⁶ The data show that this achievement gap starts in fourth-grade and persists all the way through high school.⁷

S.B. 1195 represents a common-sense plan for reforming the state's school finance system. It puts students and their academic needs at the forefront of education funding in a way that increases equity, efficiency, and effectiveness, adds flexibility, and is unabashedly transparent. There is no doubt that the proposed reform is bold, but examples from across the country, and even next door in Rhode Island, indicate that it is absolutely feasible.

The Elements of a Strong School Finance System

What would a high-quality school finance system look like, one that creates a framework in which a state can provide great schools for all its children? Four interlocking characteristics stand out:⁸

1. **Equity:** Schools should receive the resources they need to support the academic needs of their students. Today we expect all children to achieve at a high level, but they do not all come to school equally prepared to learn. Some children require additional learning time or benefit disproportionately from having effective teachers. Funding levels should therefore reflect differences in student need.
2. **Efficiency and Effectiveness:** Each dollar should be used in a way that maximizes student achievement. Money is just a tool with which to facilitate academic achievement. Student outcomes must therefore always drive funding decisions.

⁴ National Center for Education Statistics. (2010). *Revenues and expenditures for public elementary and secondary education: School year 2007-08*. Retrieved from <http://nces.ed.gov/pubs2010/expenditures/tables.asp>

⁵ National Center for Education Statistics. (2010). *NAEP data explorer*. Retrieved from <http://nces.ed.gov/nationsreportcard/hstsnde/> on 2009 data

⁶ NAEP data explorer

⁷ ConnCAN. (2010). *2009 NAEP reading results analysis*. Retrieved from [http://www.conncan.org/sites/default/files/research/2009 NAEP Reading Results 0.pdf](http://www.conncan.org/sites/default/files/research/2009%20NAEP%20Reading%20Results%200.pdf); ConnCAN. (2010). *CONCAN: State's achievement gap lasts through 12th grade*. Retrieved from <http://www.conncan.org/aboutus/news/conncan-states-achievement-gap-lasts-through-12th-grade>

⁸ Framework based on ideas presented in: Hill, P., Roza, M., & Harvey, J. (2008, February). *Facing the future: financing productive schools*. Retrieved from http://www.crpe.org/cs/crpe/download/csr_files/pub_sfrp_finalrep_nov8.pdf

3. **Flexibility:** School systems are constantly changing in response to demographic shifts, immigration, and general movement as families pursue new economic opportunities. As student populations shift, funding levels should also adjust so that schools and districts will always have the resources they need to meet the particular demands facing them at a given time. In addition, schools and districts need wide flexibility to use resources in ways that meet the unique needs of their students. Educators and leaders must have the authority to allocate funds to activities that will pay off for students, and to reallocate funds over time as needs change and new strategies emerge.
4. **Transparency:** The average citizen should be able to understand how the state allocates school funding. K-12 spending represents taxpayers' greatest expense, and so they ought to be able to see clearly how their money is being spent. Even more importantly, school leaders and policymakers can only make smart choices if they know where funds are going and how specific spending decisions affect student achievement.

How Connecticut's System Falls Short

In 2009, Public Impact conducted a study of Connecticut's school finance system, the findings of which were published in a report called "The Tab."⁹ The study included a three-day "listening tour" with Connecticut policymakers, education leaders, and other stakeholders, extensive analysis of the state's school finance data and policies, and a research review about best practices in school finance nationally. We found that Connecticut's school finance system fell far short of the elements described above. Here are just a few examples of how Connecticut's school finance does not work:

School funding in Connecticut is not equitable

- **Connecticut allocates very little funding to compensate for differences in student need.** Poor children are supposed to receive 33 percent more funding through the ECS formula, but they only receive about 11.5 percent because of legislation that directs limited funds for other purposes first, such as minimum allocations and high-density supplements.
- **Differences in district funding do not consistently reflect differences in student need.** State funding varies considerably across Connecticut's districts, from a few hundred dollars to more than \$10,000 per pupil. Differences in funding levels should reflect a district's student enrollment and its ability to raise local revenues. But we find that some districts enrolling very few low-income students receive as much or more funding as districts where more than half of all students qualify for free or reduced price lunch. Similarly, some moderately wealthy districts receive as much or more funding than the poorest districts.¹⁰

⁹ ConnCAN and Public Impact. (2009). *The tab: How Connecticut can fix its dysfunctional education spending system to reward success, incentivize choice and boost student achievement*. Available at <http://www.conncan.org/sites/default/files/research/TheTab.pdf>

¹⁰ ConnCAN. (2010). *Spend smart: Fix our broken school funding system*. Retrieved from <http://www.conncan.org/learn/research/school-finance/spend-smart-fix-our-broken-school-funding-system>

- **Students in charter and magnet schools are funded at lower levels than students in traditional public schools.** In 2006-07, charter students received about 77% as much funding as students in traditional district schools, and as little as 55% as much funding in some districts (e.g. New Haven).¹¹

School funding in Connecticut is not efficient or effective

- **Performance remains low despite high spending.** As noted above, Connecticut is the fourth highest spending state on K-12 education. Results from the NAEP, however, show that eighth grade students qualifying for free or reduced priced lunch in Connecticut perform three grade levels behind their peers in math and reading, more than in any other state.
- **The state often “double funds” charter students.** When a child attends a charter school, the student’s home district continues to receive funding for him, even though the district is no longer responsible for his education. Then the state pays for that child a second time through a charter school line item. As mentioned above, however, the funding charter schools receive for students is less than the sending district receives *not* to educate them.

School funding in Connecticut is not flexible

- **Connecticut’s funding formula doesn’t adjust for changes in enrollment.** A “hold harmless” provision in the current funding formula requires that districts receive at least as much state funding as they did in the previous year, in real dollars. In effect, the hold harmless provision causes the state to allocate more per pupil funding to districts with declining enrollments than to districts serving a growing number of students.

School funding in Connecticut is not transparent

- **Allocation formulas are complicated, making it nearly impossible to “unlock” the ECS formula.** For example, determining the size of a town’s ECS grant involves calculations based on the student population, town wealth, supplemental aid, regional bonuses, caps, density supplements, transitional district minimum grants, and the prior year’s grant. Such complicated formulas make it nearly impossible to “unlock” the ECS formula and understand how and why the state distributes funding the way that it does.
- **Millions of dollars in revisions to the education budget occur behind closed doors.** At the very end of each legislative session, the legislature enacts a bill known as the “budget implementer,” which includes pages of detailed dictates, carve-outs and add-ons to the education budget. As a result, allocations to schools and districts reflect the outcome of political negotiations rather than rational, need-based calculations.
- **Large swaths of data are unavailable or difficult to obtain.** To gather the data needed for our report, researchers had to conduct hundreds of separate queries, which is not practical for the average policymaker or citizen. The State Department of Education collects some data unavailable online, but could not always produce this information for us in a timely manner as a result of its collection methods. We also found that some data of interest, including intradistrict transfers

¹¹ Batdorff, M., May, J., and Maloney, L. (2010). *Charter school funding: Inequity persists*. Retrieved from <http://cms.bsu.edu/Academics/CollegesandDepartments/Teachers/Schools/Charter/CharterFunding.aspx>

between districts and charter and magnet schools, and interdistrict transfers between towns and regional districts, were completely unavailable.

Promise of a Better System

Although S.B. 1195 is complex, at its heart it proposes a simple, common-sense approach known nationally as student-based budgeting. Student-based budgeting (SBB) is a way of allocating school funding based on the number of students a district or school enrolls and the needs of those students. Under SBB, all students generate a base amount of funding, but some students with greater needs generate additional funding. The amount of funding a district or school receives therefore reflects the number and types of students it enrolls. S.B. 1195 also includes a mechanism for determining how much of that funding will come from state versus local sources.

Most importantly, SBB as proposed in S.B. 1195 bases student funding on student need and allocates funding in a predictable, precise, and transparent manner. In the process, SBB fulfills the elements of a high quality finance system outlined earlier.

SBB funds student achievement equitably.

- **Student need drives funding.** Districts receive a base level of funding for all students, but more funding for students with greater need. Students, rather than inputs or historical spending patterns, are central, creating a fairer funding system.¹²
- **The same formula applies to all public school students.** It does not matter whether a child attends a traditional district school, a charter school, or a magnet school, the same funding formula applies. All public school students have an equal opportunity to receive the resources they need to achieve at high levels.
- **The state picks up more of the tab for low-income and low-wealth districts.** Though all districts would receive some state funding, districts with lower median income and town wealth would receive a larger share of their K-12 resources from the state.

SBB funds student achievement efficiently and effectively.

- **It targets funding to improve student achievement.** SBB maximizes the efficiency and effectiveness of each dollar by targeting resources where they are needed most, rather than to provide a particular set of inputs or maintain current programs.
- **SBB funds all students just once.** The proposed funding system includes all students within a single funding formula regardless of the type of public school they attend. As result, each student is funded just once, and only the school that actually educates that student receives the funding.
- **It creates a reform-friendly environment.** By giving school leaders the resources they need to educate their actual students, rather than the average student, SBB can create the conditions through which other critical reforms can take place.¹³

¹² Miles, K., & Roza, M. (2006). Understanding student-weighted allocation as a means to great school resource equity. *Peabody Journal of Education*. 81(3), 39–62.

¹³ Chambers, J., Shambaugh, L., Levin, J., Muraki, M., & Poland, L. (2008). *A tale of two districts*. Retrieved from http://www.hewlett.org/uploads/files/ATaleofTwoDistricts_Final.pdf, p. xiv.

SBB is flexible.

- **The formula funds today's students.** SBB provides funding for the student population a district is responsible for educating today, rather than for the students the district enrolled two, five or even ten years ago. As student enrollment increases, so does funding, and as it decreases, funding does as well.
- **It adapts to new reforms.** Since SBB provides districts with dollars, rather than the personnel or materials, districts can experiment with different kinds of curricula, staffing, and programs as new and better options emerge.

SBB is transparent.

- **Funding allocations are easy to follow.** SBB takes multiple funding pots and collapses them into one funding stream distributed through a single formula. As such, it's a simpler and more transparent system compared to what Connecticut has today.

How will Connecticut be able to tell if the new system is better? Some aspects, like greater equity and transparency, will be easy to tell when we can look at the data and understand both how much districts receive and why they receive the funding amounts they do. Other benefits of SBB, such as whether or not the state is applying resources more effectively, will be more difficult to prove. But transparent allocation, together with a uniform chart of accounts proposed in S.B. 1195, offer an unprecedented flow of data about where education dollars are going, how districts and schools spend them, and the effects of those spending decisions.

The Feasibility of Student-Based Budgeting

As with any major change in school finance, legislators are likely to wonder whether the proposed plan will work. Can it really be done? Based on my research and experience, the answer is clearly yes. Four facts should reassure Connecticut lawmakers.

Wide support among finance experts. First, many school finance experts representing a broad spectrum of political and ideological views have come out in support of SBB.

- The Gates Foundation funded a six year School Finance Redesign Project producing nearly 40 publications and involving dozens of education finance experts from law, policy, education, and economics. The first recommendation of the project's final report was to replace today's finance systems with a model where schools receive funding based on the number of students they enroll, and the needs of those students.¹⁴
- In 2006, more than 70 leaders from district, state and federal government, national think tanks, and advocacy groups representing both sides of the political gamut endorsed "Funding the Child:

¹⁴ Hill, P., Roza, M., and Harvey, J. (2008). *Facing the future: Financing productive schools*. Retrieved from http://www.crpe.org/cs/crpe/view/csr_pubs/251

Tackling Inequity and Antiquity in School Finance,” a report from the Thomas B. Fordham Foundation that made the case for SBB.¹⁵

- With funding from Carnegie Corporation of New York, the Rockefeller Foundation, and Pew Charitable Trusts, the Annenberg Institute for School Reform at Brown University convened School Communities that Work: A National Task Force on the Future of Urban Districts to “create, support, and sustain entire urban communities of high-achieving schools.” After five years, the task force created a vision for a “smart district,” which included SBB as one of its five feature components.¹⁶

Significant experience implementing SBB elsewhere. Second, a growing number of districts and states are replacing their antiquated funding systems with SBB. Each of these has encountered all of the feasibility questions that may be on the minds of Connecticut policymakers and found solutions. For example:

- More than a dozen school districts across the country – including New York City, San Francisco, Houston, Oakland, Baltimore, Cincinnati, and Hartford – have implemented a student-based formula to distribute school funding.¹⁷
- As of last year, at least six more districts were considering or piloting SBB, including Rochester and Philadelphia.¹⁸
- Hawaii has implemented SBB at the state level since 2004, and Rhode Island will begin using SBB in fall 2011.

Evidence of success. Third, evidence from a number of districts using SBB show that the new funding model is changing the way financial resources are allocated and how schools spend those resources.

- Data from Cincinnati and Houston show that schools in those districts were funded more equitably after the implementation of SBB.¹⁹ Within four years, the percentage of Houston schools receiving within 5 percent of district weighted average expenditures increased from 49 percent to 81 percent. Just 23 percent of Cincinnati schools were in that range before SBB, but every school in the district was funded within 5 percent of district-weighted average expenditures within four years.
- Evidence from Oakland and San Francisco suggest that SBB changed the way that school leaders spent funding.²⁰ Although it is not possible to isolate the effect of SBB, researchers found that SBB prompted officials to better align their resources to meet their academic goals.

¹⁵ The Fordham Institute. (2006). *Fund the child: tackling inequity and antiquity in school finance*. Retrieved from http://www.schoolfunding.info/resource_center/media/Fordham_FundtheChild.pdf

¹⁶ Annenberg Institute for School Reform. (2002). *Building smart education systems*. Retrieved from <http://www.annenberginstitute.org/Products/Portfolio.php#budgeting>

¹⁷ Snell, L. (2009). *Weighted student funding handbook*. Reason Foundation. Retrieved from <http://reason.org/news/show/weighted-student-formula-yearb>

¹⁸ ERS. (2010). *Fair student funding summit: Conference proceedings for action*. Retrieved from http://erstrategies.org/documents/pdf/Fair_Student_Funding_Summit.pdf

¹⁹ Miles, K., & Roza, M. (2006). Understanding student-weighted allocation as a means to great school resource equity. *Peabody Journal of Education*. 81(3), 39–62.

²⁰ Chambers, J., Shambaugh, L., Levin, J., Muraki, M., & Poland, L. (2008). *A tale of two districts*. Retrieved from http://www.hewlett.org/uploads/files/ATaleofTwoDistricts_Final.pdf, p. xiv.

- An analysis of SBB in the Netherlands found that schools enrolling high proportions of high need students in the country's four largest cities received substantially more resources, compared to schools enrolling very few students qualifying for extra funding. These additional funds translated into 57 percent more teachers and almost twice as many support staff in the most high need schools.²¹
- Data from Hartford and Baltimore show that SBB often leads districts to shift resources from their central office to schools.²² In 2009-10, Hartford Public Schools trimmed central office costs by 20 percent, which helped the district increase the percent of available resources for instruction by nearly half. Baltimore City Schools cut its central office by \$165 million in 2008, allowing it to not only cover a budget shortfall, but also redirect \$88 million to schools.

Careful implementation planning by S.B. 1195's crafters. Finally, Connecticut is well-poised to overcome the challenges of implementing SBB because S.B. 1195 reflects a careful and well-studied design of solutions to the most vexing potential issues. My review of S.B. 1195 indicates that if passed, Connecticut will be well-equipped to confront the six greatest implementation issues related to SBB:

1. **Cushioning districts and schools that stand to lose money.** When total resources are fixed or declining, any change in a finance system will cause some units to lose funds over time. Under S.B. 1195, state funds would follow students to the public district or school of choice they attend. When a child leaves a classroom, however, the fixed costs at that school do not decrease by the full per pupil amount. For example, the teacher's salary does not decrease by one twentieth, nor does the cost of cleaning that classroom. Of all the plans we reviewed, S.B. 1195 goes the farthest towards ensuring a smooth transition that minimizes disruption, while still ultimately arriving at an SBB system. Specifically:
 - Nothing changes in the first biennium while a special committee examines expenditure data to determine appropriate foundation amount and supplement amount for student need. This represents a very generous planning period that should go a long way towards allowing Connecticut to develop a thoughtful, research-based formula and providing districts time to prepare for the transition.
 - Even after the two-year planning period, the phase in will occur gradually, over a period of seven years for districts gaining funds, and a period of 10 years for districts losing funds.
 - Districts losing more than 3 percent of their students to other districts or schools of choice will be eligible to receive additional funding from a district reimbursement fund to ease the transition process.

²¹ However, researchers were not able to pinpoint an effect of these resource changes on student performance. Ladd, H. & Fiske, E. (2009). *Weighted student funding for primary schools: An analysis of the Dutch experience*. Sanford School of Public Policy at Duke University. Retrieved from <http://sanford.duke.edu/research/papers/SAN09-02.pdf>

²² Snell, L. (2009). *Weighted student funding handbook*. Retrieved from <http://reason.org/news/show/weighted-student-formula-yearb>

- If adjustments to the permanent funding formula occur after FY 2014 and cause a district to lose more than 3 percent of its local and state funding, the district can extend its transition plan by three years.
2. **Adjusting to fluctuations in enrollment.** Student enrollments do not just change from one year to the next, but throughout the school year as well. S.B. 1195 therefore proposes to allocate funding in allotments throughout the year. Schools will receive 50 percent of their SBB funding in September. The state will pay then balance by January, after adjusting for actual enrollment.
 3. **Accounting for student need accurately.** Under an SBB system, students with the greatest needs generate additional funding for their districts, creating an incentive for districts to identify as many qualifying students as possible. As a result, states using SBB need mechanisms to ensure that student counts are accurate. S.B. 1195 presents fewer counting challenges than many other SBB plans, because eligibility for subsidized meals is the only relevant student characteristic. In some other cities with SBB, officials have to validate several student counts for each school, not just one. S.B. 1195 carefully addresses the counting-accuracy issue by requiring the state to establish guidelines for the verification of qualifying students and requiring local and regional boards to verify a sample of free and reduced price lunch eligible households each year.
 4. **Sharing costs between districts and the state.** Although Connecticut provides a substantial amount of funding for K-12 education – around 40 percent – districts generate an even greater share – 56 percent.²³ Districts across Connecticut, however, vary greatly in their ability to generate funds. To reflect differences in district wealth and to ensure that all districts have an equal opportunity to fund their students, S.B. 1195 would determine the amount of funding a district received from the state by considering both the SBB formula and the town's ability to generate local revenue. Wealthier districts would therefore be expected to fund a larger share of education costs, while the state would fund a larger share in poorer districts.
 5. **Calculating starting values.** One of the most difficult decisions policymakers implementing an SBB system face are determining the amount at which to set the foundation and the student need supplement. S.B. 1195 gives policymakers two years to analyze expenditure data and determine starting amounts. As many districts implementing SBB have learned, however, time and experience uncover new and better ways to determine the proper values. S.B. 1195 therefore requires that the Department of Education update the per pupil foundation amount based on new expenditure data at least once every four years.
 6. **Protecting essential services and programs.** Some may be concerned that by moving away from line items and required structures and allocations, an SBB system may eliminate essential services. But S.B. 1195 goes out of its way to protect many essential services and programs by excluding them from the SBB formula, including special education excess costs, Priority School District funds for after school, summer school or school readiness, and transportation costs.

Some may argue that it is best to wait until better fiscal times before implementing such a bold reform, when new money can create an environment where no one loses funding. But now, more than ever,

²³ National Center for Education Statistics. (2010). *Revenues and expenditures for public elementary and secondary education: School year 2007-08*. Retrieved from <http://nces.ed.gov/pubs2010/expenditures/tables.asp>

Connecticut needs a new finance system that will help the state increase its spending efficiency and ensure that resources go where they are needed most.

Acknowledgements

BRYAN C. HASSEL is Co-Director of Public Impact. He consults nationally with leading public agencies, nonprofit organizations and foundations working for dramatic improvements in K-12 education. He is a recognized expert on charter schools, school turnarounds, education entrepreneurship, and human capital in education. His work has appeared in *Education Next*, *Education Week* and numerous other publications. Dr. Hassel received his doctorate in public policy from Harvard University and his master's degree in politics from Oxford University, which he attended as a Rhodes Scholar. He earned his B.A. at the University of North Carolina at Chapel Hill, which he attended as a Morehead Scholar.

Example projects: Dr. Hassel's recent work includes a chapter on how cutting-edge data strategies could transform public education in the book *A Byte at the Apple: Rethinking Data Systems for the Post-NCLB Era* and co-authoring "The Big U-Turn: How to bring schools from the brink of doom to stellar success" for *Education Next*. Dr. Hassel has also served as a consultant to leading efforts to create high-quality charter school systems, including charter school office of the mayor of Indianapolis, and, more recently, Rhode Island's creation of a network of mayor-led charter schools. He also authored the Brookings Institution Press book *The Charter School Challenge: Avoiding the Pitfalls, Fulfilling the Promise*, co-edited the Brookings volume *Learning from School Choice*, and co-authored *Picky Parent Guide: Choose Your Child's School with Confidence*.

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This testimony draws heavily on prior research and publications from Public Impact about school finance, including the publications referenced in the first endnote.



SPEND SMART: FIX OUR BROKEN SCHOOL FUNDING SYSTEM

A CONNCAN ISSUE BRIEF

Spend Smart: Fix our broken school funding system

Introduction

Our elected officials have some big math problems to solve this year, from an unsustainable \$3.7 billion deficit to zero job growth.

Education is the most important investment we make in our state's future, but it's where we're getting the worst return on our money. Low-income students are further behind in Connecticut than in every other state, and even our highest performing students are behind the top students in Massachusetts.

It's time to change the way we deliver public education. Our system is systematically failing far too many Connecticut students who slip through our fingers every year. They can't wait any longer, and neither should we.

It's time for bold leadership and smarter investment decisions from our elected officials. Connecticut has two choices: we can perpetuate the current broken education funding system and hope for the best, or we can turn this challenge into an opportunity to do better. It's time for a smart school finance system that funds students based on their learning needs at the public schools they actually attend.

Connecticut's school funding system is broken.

Despite outspending almost every other state in the country on education, Connecticut distributes over \$7 billion a year by using an inefficient and fundamentally unfair formula.¹ Our current system of school funding is driven largely through the Education Cost Sharing (ECS) formula, which:

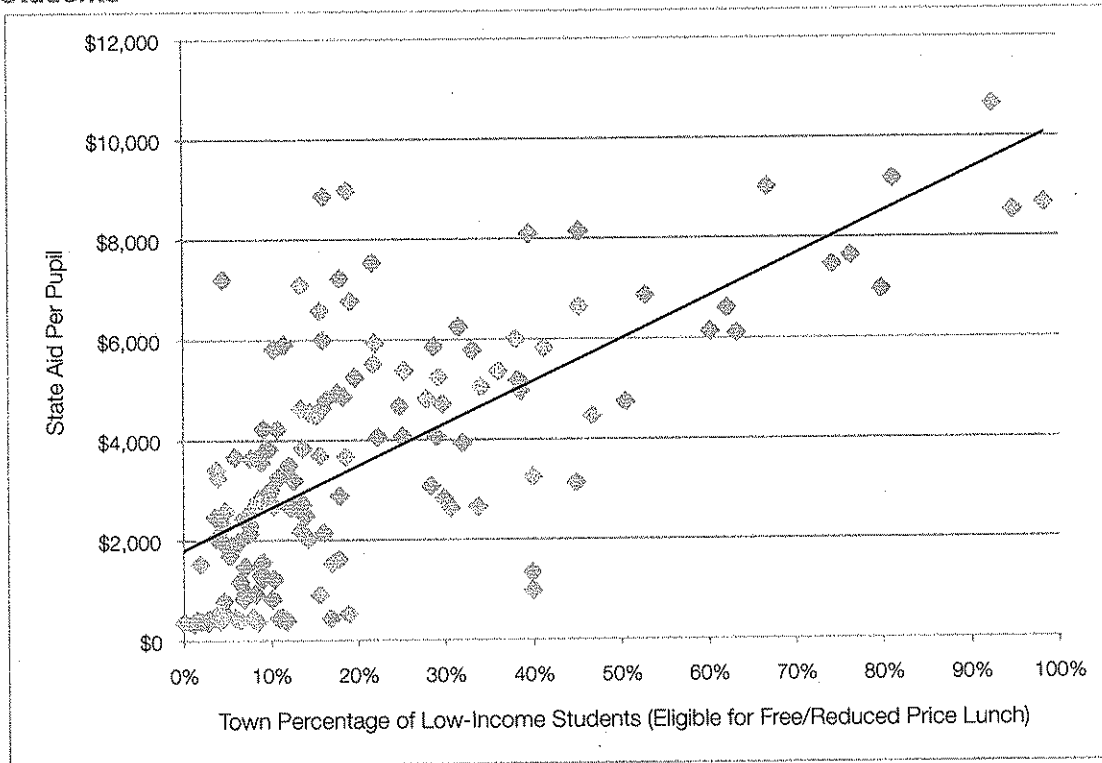
- **Funds students inconsistently and fails to direct resources where they are needed most.** The ECS formula is required to provide all school districts with a baseline, or foundation, amount of \$9,687 per student. In reality, however, the state funds this foundation amount at a far lower level: \$6,897 per student. The ECS formula also fails to provide similar amounts of state aid for children with equivalent learning needs. Figure 1 shows that students in towns with comparable wealth receive widely varying amounts of state aid, from under \$2,000 to over \$8,000 per student, even when they have the same learning needs.² For example, a student in Naugatuck receives a total of \$6,002 a year in state aid for his education. But if that same child lived in Bristol, he would get a total of only \$4,967 in state aid – even though his learning needs haven't changed and the cities have comparable wealth

¹ ConnCAN, *The Tab*. November 2009; <http://www.conncan.org/sites/default/files/research/TheTab.pdf>.

² Connecticut State Department of Education, 2008-09 general state aid figures.

and poverty levels.

Figure 1. Distribution of Current State Education Aid by Percentage of Low-Income Students

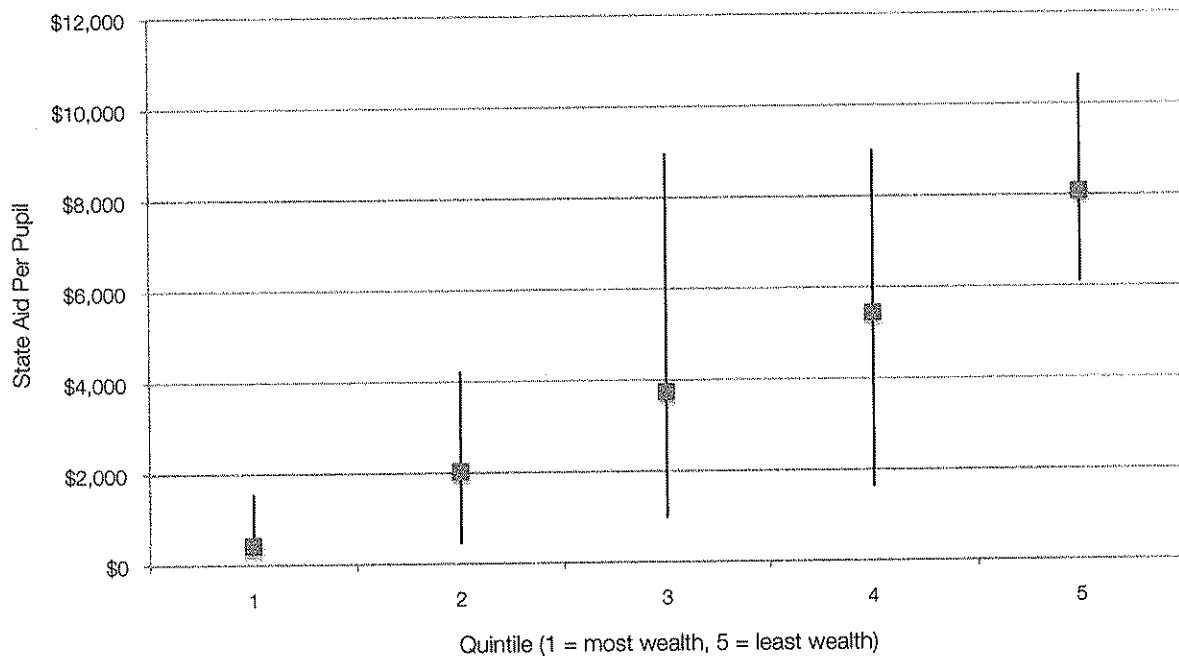


Our current system also fails to adequately account for differences in town wealth. Figure 2 shows that some of our poorest towns (towns in Quintiles 4 and 5) receive only as much or less per student from the state as our middle-class and wealthiest towns (towns in Quintiles 2 and 3) do. Moreover, our current system was designed to direct 33 percent more dollars to students in towns with high poverty, but actually provides only 11.5 percent more funding for these students.³ This places a significant burden on communities serving our poorest children.⁴

³ ConnCAN, *The Tab*, pg. 18.

⁴ Connecticut Conference of Municipalities, "A Tale of Disproportionate Burden: The special needs of Connecticut's poorer cities," 2010.

Figure 2. Distribution of Current State Education Aid by Town Wealth (red box = median)



- Restrains public school choice.** Many of our public charter and magnet schools are delivering some of the highest student performance in the state,⁵ and Connecticut families are increasingly demanding more education options.⁶ Between 2000 and 2009, student enrollment in nontraditional public schools increased by 63 percent. In the school year 2009-10, there were more students on charter school waiting lists (5,286) than students enrolled in them (5,170).⁷ The State Department of Education projects that magnet school enrollment will grow by 8,200 students by 2013. Meanwhile, magnet schools, charter schools, technical high schools, and vocational agricultural schools are all funded through separate line item appropriations in the state budget, and at differing levels that are not based on student need. For example, students at Connecticut's charter schools are funded at only 75 cents on the dollar compared with traditional public schools.⁸ This funding disparity unfairly penalizes students attending nontraditional public schools. It is also highly inefficient. Because Connecticut funds public schools of choice separately and does not account for students where they actually attend school, we

⁵ ConnCAN 2010 Top Ten Lists:

http://www.conncan.org/sites/default/files/ConnCAN%20Top%2010%20Lists%20_2010.pdf.

⁶ According to the Connecticut State Department of Education, between 2000 and 2009, enrollment in charter, magnet, and technical schools increased by 63%. In the school year 2009-10, charter schools enrolled 5,170 students and 5,286 students were on charter school wait lists.

⁷ Connecticut State Department of Education and Connecticut Charter School Network.

⁸ ConnCAN, *Connecticut's Charter School Law and Race to the Top*,

<http://www.conncan.org/sites/default/files/research/CTCharterLaw-RTTT2010-Web-2.pdf>.

often pay twice for students in school choice programs: once in the district where the student resides and once in the school where the student is enrolled.⁹ This dual funding is careless and wasteful, and discourages healthy competition among schools to attract and retain students.

- **Discourages transparency, efficiency and improvement.** Taxpayers have a right to know how schools and districts use their tax dollars. Parents have a right to know whether their children's education is funded adequately and equitably. Yet Connecticut's funding system is anything but transparent. The formulas used to determine state aid to districts and schools of choice are difficult for both public officials and ordinary citizens to understand. Without transparency, it is also difficult for district, city, and state leaders to compare and share best practices.

Current "hold harmless" provisions allow districts to maintain outdated staffing levels and administrative structures even after enrollment has declined. Such mandates and regulations significantly increase education costs, limit how districts can use resources, and restrict the flexibility that districts need to respond to changes in funding.

In addition, the current system discourages districts from improving their spending practices. Under the current system, the state can simply reclaim any savings that the district achieves by finding efficiencies. As a result, districts have no incentive to pursue new systems. An updated funding system could give districts incentives to share services, collaborate, and economize.

Our current funding formula is an illusion. Connecticut needs a smart approach to school funding that puts students at the center.

⁹ ConnCAN, *The Tab*, pg. 28.

Table 1. Comparison of Current vs. Spend Smart Funding System

Desired Goal	Current School Funding System	Smart Student-Based System
Consistent and equitable distribution of school funding	Annual political wrangling results in district and school choice funding levels that inconsistently and arbitrarily subsidize some towns and students while disadvantaging others.	Each public school student drives a concrete amount of funding to the school he or she attends through a straightforward formula with clear decision points; lengthy phase in that allows the state to make smart adjustments over time; initial two-year planning period during which no funding shifts occur.
Sets and fulfills a clear foundation amount	Funds foundation amount at \$6,987, though legally set at \$9,687.	Requires an initial costing out study to set clear foundation amount and periodic follow-up studies to adjust this amount.
Consistently provides additional funding for students with extra learning needs across all public schools	Formula intended to provide 33 percent more dollars to high-poverty students, but actually only provides about 11.5 percent and does not do so across all public schools.	"Student Success Factor" provides a set percentage of the foundation amount in additional funds for students in poverty, as measured by free/reduced price lunch eligibility, and does so consistently across all public schools.
Consistently accounts for town wealth	Towns with comparable wealth and student needs receive state aid that can range from under \$2,000 to over \$8,000 per student.	"State Share Ratio" to accurately factor in both a town's revenue-generating capacity and a town's median household income to determine its overall level of wealth and ability to pay for education locally.
Functions as a clear and coherent system	Disparate funding streams for ECS and school choice options create a tangled mess in which similar students and similar schools receive widely varying amounts of state aid.	Consolidates the ECS formula, funding for magnet, charter and Open Choice schools, and the "base" Priority School District (PSD) grant into one system (it does not include PSD funds for after school, summer school, or school readiness). ¹⁰ Incorporates technical and vocational agricultural schools into this system after additional study to determine how best to account for the special resource needs of these programs.
Facilitates public school choice	Funds schools of choice on separate line items, so adequate funding does not consistently follow students to the public schools they actually attend; funds some choice options at a fraction of traditional public schools; often pays for same student twice.	Provides each student with at least as much funding as he or she is due under the funding formula, no matter what public school he or she attends.
Encourages transparency, efficiency, and student achievement growth	Opaque formulae; no common accounting practices; not responsive to shifts in student enrollment; insufficient flexibility or incentives for districts to adjust budgets and costs to seek efficiencies and boost student achievement.	Requires a common chart of accounts; clearly links per-pupil funding to actual student enrollment; grants districts much-needed flexibility from mandates to adapt and deploy resources creatively and effectively to meet the needs of students; and allows districts to retain any cost savings they incur.

¹⁰ These funding streams amount to \$2,122,821,710 in appropriated 2010-11 funds.

A smart funding policy.

We need a student-based school funding system that:

- **Gives the state a smart path forward** by using a straightforward formula (see Equation 1) with clear variables for foundation amount, state share, and weights for students with extra learning needs. If necessary, the value of the variables in the formula can be adjusted in a fully transparent way based on the state's ability to pay. The proposed changes can reduce the political wrangling that has previously occurred over education funding and create incentives to drive performance and improve student outcomes, rather than to continue inefficient practices.

Equation 1. Student-Based Funding Formula

$$\text{LEA's State Aid} = \text{State Share Ratio} \times \text{Foundation Amount} \times \left[\text{Total Students} + \text{Student Success Factor} \right]$$

- **Has the potential to direct more resources to a majority of students over time** by providing a lengthy phase-in period and clear decision points that will allow the state to make smart adjustments. Specifically, the proposal establishes the new formula right away, but holds current funding levels steady for two years and allows for a lengthy phase-in period. During the first two years, the state would conduct a "costing-out" study to determine the appropriate foundation amount, implement improved reporting and accounting practices (see below), and communicate with districts about what will happen under the new formula. The proposed formula would begin in the third year. Any gains in funding would be distributed evenly over seven years, and losses in funds would be distributed over 10 years. A Spend Smart system also provides an extra three-year phase-in to protect a very small number of districts that might lose more than three percent of the foundation amount in any given year.
- **Sets a clear foundation amount** that is earnestly implemented. The foundation is the base per-student amount that is used in the formula; it is considered the "core costs" to educate a student. As noted above, the current ECS legislation requires that the foundation amount be \$9,687; however, the actual amount has not even reached \$7,000, and it only applies to students in traditional public schools. Under a Spend Smart policy, the state would conduct a high-quality costing-out study in the first two years to identify the appropriate foundation amount based on actual costs and effective spending practices. The results of this study would be used to establish an honest, baseline foundation amount and apply it to all students in every public school (traditional, charter, magnet, etc.). The state would then conduct

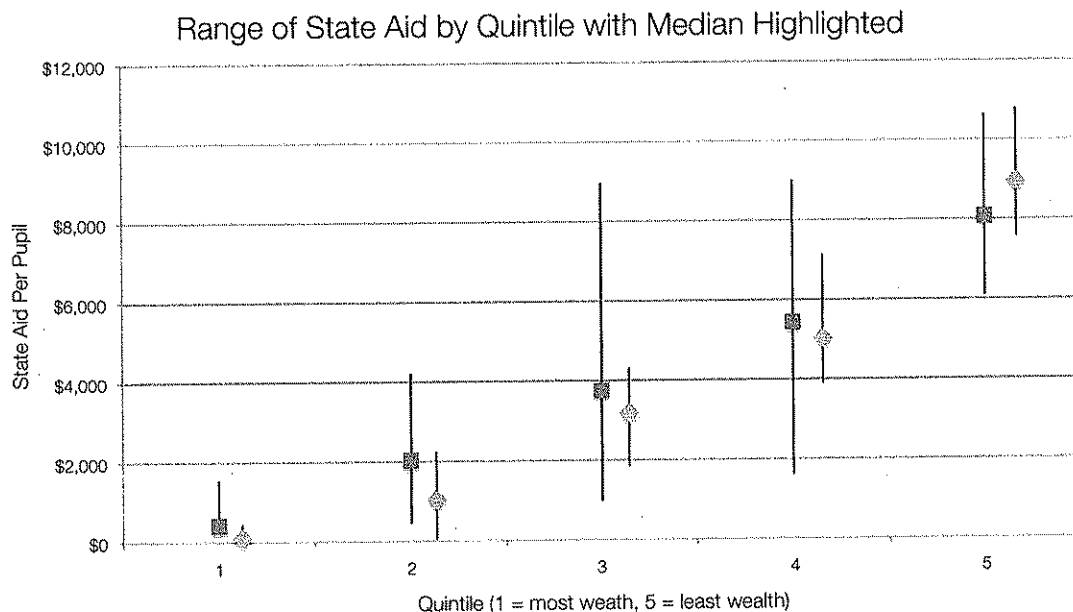
periodic studies to ensure the foundation amount remains at an appropriate level that the state has the ability to fulfill.

- **Provides additional funds for students with extra learning needs** and ensures that students with the same learning needs are funded consistently in all public schools across the state. The “Student Success Factor” is the additional dollar amount, or “weight,” that directs additional funds to students with extra learning needs beyond the foundation amount. It is a percentage of the foundation amount: for example, in addition to the foundation amount for every student, the formula could provide a weight for each student in poverty (students eligible for free/reduced price lunch) in any public school.^{11,12}
- **Accurately accounts for town wealth and distributes money more precisely** than our current system does, based on student need and town wealth. The “State Share Ratio” factors in both a town’s revenue generating capacity and a town’s median household income to determine its overall level of wealth and ability to pay for education locally, which would allow the state to account for differences in towns’ ability to pay for education. This State Share Ratio, combined with the Student Success Factor and other key variables, would direct education funding in a clear way that more accurately accounts for town wealth and student need than our current system does. Figure 3 shows how the proposed system would distribute funds more rationally and accurately according to town wealth than our current system.
- **Guarantees a minimum amount for every student so that students at all our** public schools receive a share of state aid. The proposed formula would guarantee each district a fixed percent of the foundation amount per pupil in state aid, regardless of town wealth.

¹¹ Eligibility for free/reduced price lunch is based on federal poverty guidelines for student with families at or below 185% of the poverty level. This data has been used in a variety of education programs, and the United States Department of Agriculture (USDA) requires a verification test of eligibility data that is conducted annually. Some stakeholders have expressed concerns about the validity of free/reduced price lunch data in Connecticut. Therefore, legislation must require verification or audits, in line with USDA requirements, of the free/reduced price lunch data. Legislation should also require the State Department of Education to work with other state agencies to obtain other poverty data to verify current measures, seek more accurate measures, and ensure that all eligible students are captured in the formula.

¹² The formula could also hypothetically provide weights for other student needs, such as English Language Learner status. However, data shared by Connecticut State Department of Education with the State’s Ad Hoc Committee to Study Education Cost Sharing and School Choice show that the measure for free/reduced price lunch also captures most English language learners. In other words, there is a very strong correlation between English language learner concentration and poverty concentration in Connecticut. In addition, keeping the formula simple allows a more generous weight for students in poverty.

Figure 3. Distribution of Student-Based Funding by Town Wealth (red = current system, blue = student based)



- Creates a clear and coherent system** by consolidating the largest pools of state education funding that apply to most children into one coherent formula that directs funding to the schools students actually attend. The proposed formula rolls the ECS formula, funding for magnet, charter and Open Choice schools, and the “base” Priority School District (PSD) grant into one system (it does not include PSD funds for after school, summer school or school readiness).¹³ The proposal would also include vocational-agriculture and technical high schools into the new funding system after an advisory council is convened to determine how best to account for the special educational programs and costs of these pathways. At the same time, specialized grants, such as the Sheff case settlement, special education Excess Costs, transportation costs, and most other categorical grants or expenses would continue as they have.
- Facilitates public school choice** by ensuring that each student is treated fairly and receives a consistent amount of funding, no matter what public school they attend. The proposed formula provides each student with at least as much funding as he or she is due under the funding formula. A Spend Smart policy is an integrated approach to choice funding that not only allows our promising charter, magnet, and other nontraditional public schools to continue to thrive, but could also incentivize schools and districts to create new high-performing public school options to attract students while meeting the demands for increased public school

¹³ These funding streams amount to \$2,122,821,710 in appropriated 2010-11 funds.

choice noted above. The Spend Smart proposal also establishes a district reimbursement fund to ensure that the movement of funds is scaled to the ability of districts with a net enrollment loss to achieve commensurate savings, recognizing that some districts may need time to adjust their budgets and practice to accommodate a loss of more than three percent of funding if significant numbers of students choose public schools outside the district. Districts meeting these criteria would qualify for the reimbursement fund for three years.

- **Requires a common chart of accounts** across districts so that budgeting and spending practices can be compared and analyzed more easily by all stakeholders. This common chart of accounts would be implemented in the first two years and would make school finance reporting consistent, transparent, and useful for decision making. During the first two years, the state would also create a new user-friendly and comprehensive financial reporting framework that would make district budget reporting and tracking easier.
- **Encourages districts to spend efficiently** by clearly linking per-pupil funding to actual student enrollment so that districts would be incentivized to share services, collaborate, and economize, while also ensuring that districts could retain or redirect earned savings.
- **Grants much-needed flexibility to districts** so they can deploy resources creatively and effectively to meet their students' needs. Such flexibility could yield not only significant cost savings, but also better student outcomes. For example, to achieve transparency in spending, a smart spending policy would require districts to use state education aid solely for educational purposes. At the same time, this policy would allow communities with high local contribution to their education budgets (e.g., where local funds make up at least 85% of education aid) and those whose educational programs are fully funded and that exceed certain achievement benchmarks to reduce their local contribution by up to 10 percent.

To achieve real flexibility, districts also need relief from restrictive contracts that prevent districts from making layoffs according to teacher performance. Current provisions require that the only factor that can determine teacher layoffs in the context of a budget crisis is seniority, or the length of time a teacher has been teaching. When districts are forced to lay off only their most junior teachers under this "last-in, first-out" policy, they have to lay off many more teachers to achieve the necessary savings and hurt student achievement by laying off teachers across a range of quality, rather than only the least effective teachers. (For more on this, see ConnCAN's issue brief, *Staff Smart*.)

The time for bold action is now.

Connecticut citizens and leaders might ask: in a time of financial crisis, wouldn't it be better to just stick with the current system, even if it's flawed, and wait for a better day to revisit the funding system? Absolutely not. Given Connecticut's educational, legal,¹⁴ and fiscal challenges, a smart, student-based funding policy to fix our school finance system must be a top priority. Sticking with the existing broken system – in the state with the nation's largest achievement gap – will have a devastating impact on the students with the greatest need, and will constrain opportunities for innovation in the delivery of public education in all of our communities. The time to fix our school finance system is *now*. We need a smart system that puts the focus squarely where it should be: on student need and student achievement.

A majority of Connecticut voters support a smarter system of funding Connecticut's schools. ConnCAN's 2010 Education Survey shows that nearly all voters (91%) agree that "Connecticut needs a simple, transparent, and fair state funding system that funds students based on their needs, regardless of what public school they attend." A large majority (75%) also agree that "state funding for public education should follow individual students to whatever public school they choose to attend, including magnet, charter, technical, and traditional public schools outside of their own district or neighborhood."¹⁵

This Spend Smart proposal is in line with the recommendations of other state policy groups such as the Connecticut Commission on Educational Achievement.¹⁶ The State Board of Education's Ad Hoc Committee to Study Education Cost Sharing and Choice Funding also agreed by majority vote on a set of design principles¹⁷ consistent with a student-based budgeting approach.

It's time to change the way we fund our schools. A student-based approach to school funding will help us spend our precious education dollars as effectively as possible so we can give all Connecticut students the education they deserve.

¹⁴ The recent Connecticut State Supreme Court ruling in the Connecticut Coalition for Justice in Education Funding (CCJEF) lawsuit against the State of Connecticut reaffirmed our state's constitutional obligation to provide a quality public education to every child. The CCJEF plaintiffs have already begun settlement talks with the state.

¹⁵ ConnCAN: "New Survey Reveals Connecticut Voters Want Change in Public Education"
<http://www.conncan.org/learn/research/achievement-gap/2010-conncan-education-survey>.

¹⁶ www.ctachieve.org.

¹⁷ These design principles are available at
http://www.sde.ct.gov/sde/lib/sde/pdf/board/minutes2011/minutes_adhoc_funding_012411.pdf.

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